



# CO-OPERATIVES 2000

## Development Strategy

Issue No: 1

NEWSLETTER OF CO-OPERATIVES 2000

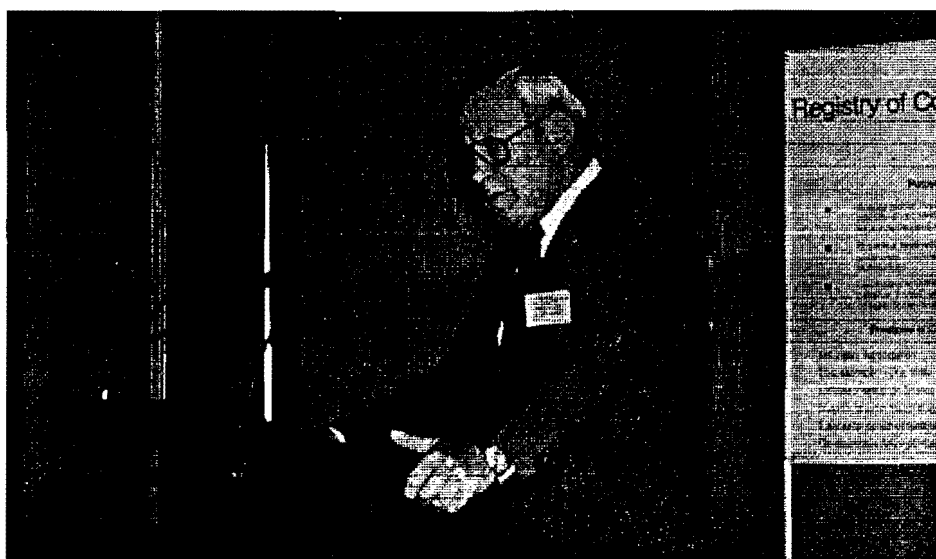
December 1991

## MINISTER LAUNCHES CO-OPS 2000

Hon. Gerry Peacocke, Minister for Local Government & Co-operatives launched Co-operatives 2000 - a development Strategy for Co-operatives in New South Wales on Friday, 6th December 1991 at the State Office Block, Sydney.

Speaking to the members of the Steering Committee and the Working Parties, the Minister said that while the previous description of the co-operative sector indicates a sizeable presence, it is not enough to rely on past efforts. He emphasised the need for looking and planning for the future.

The Minister described the project Co-operatives 2000 as a design to develop the necessary medium term infrastructure needed to identify and maximise opportunities for co-operative development and growth in NSW in the years to come. He added that the strategy process will draw upon the experience and expertise of the members of the Steering Committee and the Working Parties.



*Hon Gerry Peacocke, Minister for Local Government & Co-operatives*

Referring the relationship between the community and co-operatives, the Minister outlined the need for closer links with the community and hoped that Co-operatives 2000 will do much towards bridging the gap of misunderstanding which is sometimes apparent in the community about the operation of co-operatives.

The Minister said that the focus of Co-operatives 2000 is on developing realistic and achievable programs which build on the strength of the co-operative movement and maximize its opportunities for development consistent with the economic

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## WHAT IS CO-OPERATIVES 2000?

The Co-operatives 2000 Development Strategy is a major initiative to develop a broad strategic planning blue-print for co-operative development in the State, sponsored by the Ministerial Council for Co-operatives, and strongly supported by the Minister for Local Government & Co-operatives.

The proposal for the preparation of a

Co-operative Development Strategy was first discussed and approved by the Minister and the Ministerial Council for Co-operatives at a meeting of the Council on 12th November 1990.

It was agreed that a strategy was necessary for getting a consensus on key development issues; for a unity of purpose; to facilitate a consultative approach; to provide a macro-plan for the development of co-operatives in New South Wales; and to outline the Government's commitment to

the co-operative movement.

The Minister appointed a Steering Committee under the Chairmanship of Mr. Don Kinnersley to develop the strategy with specific terms of reference.

The Steering Committee decided to establish four Working Parties to examine in detail a range of issues affecting the growth and development of co-operatives.

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### EXTRACTS FROM THE SPEECH MADE BY Mr. DON KINNERSLEY AT THE INAUGURAL MEETING OF CO- OPERATIVES 2000 :

"I am pleased to see that we have managed to bring together people from a wide range of businesses and with such diverse skills.

Our job is to provide for a strategy for development of co-operatives in NSW; to produce a Green Paper which will be circulated widely for comment and then a White paper for presentation to the Minister.

The issues to be covered, if the Strategy is to be effective, are many and complex. For this reason the Steering Committee has divided them into groups to enable the Working Parties to give each issue the appropriate consideration. We

do not pretend to have identified all relevant issues and members of working parties should feel free to put forward any issues which they think are important in the development of our strategy.

The timetable is fairly tight and it is important that we maintain a discipline in timing and procedures without restricting our ability to produce a really worthwhile Strategy.

I have spent 37 years working for a co-operative, latterly as Managing Director. I spent 15 months fighting off a corporate raider and in the process saw the strength of support which active members can give their co-operative and the warmth of the Minister's feelings towards the co-operative sector.

The Minister has provided us, in the co-operative sector, with enormous sup-



port and now I am asking you to help us repay this support by providing the framework which will enable co-operatives to be a strong, viable alternative to other forms of organisation."

*Mr Don Kinnersley  
Chairman, Steering Committee*

## WORKING PARTY A

The meeting of the Working Party A held on 6th December 1991 was chaired by Duncan Campbell.

The following issues were discussed by the Working Party :

- \* A model for regional funding for communities where a local, established, accredited funding organisation would receive funds and invest through debentures to be started by a once off grant by

the NSW Government.

- \* Removal of restrictions on commercial lending of large amounts by Credit Unions by way of syndication of funds could be a strategy to enable large commercial loans.

- \* The lack of knowledge of co-operatives' legal structure by lending organisations and the lack of skills and knowledge about fund raising.

- \* The lack of retention of profits and the repayment of share capital to inactive



## WORKING PARTY B

At the first meeting of the Working Party B held on 6th December 1991, which was chaired by Mr Ian Davidge, the issues listed for the Working Party's consideration were discussed. Views were expressed that proposed issues are too broad to investigate thoroughly during the time allocated to the project.

The Working Party identified the following issues for detailed discussion :

- \* The development of the concept of Export Culture among the NSW Co-operatives.

- \* Adverse affects the Trade Practices Act has on co-operative development, joint ventures and amalgamation between Co-operatives in search of becoming more efficient.

- \* Power of Acquisition and Single Desk Selling which are considered essential for successful marketing, especially on the export market, of Australian commodi-

## FUNDING & REGIONAL DEVELOPMENT

members or members leaving the co-operative which results in a reduction in capital which hamper the Capital requirements of co-operatives.

- \* The need to access the Regional Development Bond report in order to undertake the task allocated i.e. the issues of funding and regional development.

Several sub-committees were formed to study the areas in great detail.

## TRADING & VALUE ADDING

ties. However, there reservations to be expressed because when institutionalised, single desk selling and power of acquisition tend to create inefficiencies within the system.

- \* Vertical integration and its benefits to rural Co-operatives in New South Wales, which is a trend among the rural co-operatives in the USA.



**EXTRACTS FROM THE SPEECH MADE  
BY Mr. GARRY PAYNE AT THE INAUGURAL  
MEETING OF CO-OPERATIVES 2000 :**

"I would like to welcome you today to the first full meeting of the Co-operatives 2000: Development Strategy.

I recognize many people who have played, or are playing, a very important role

in co-operatives. There are a number of people with particular expertise from areas outside of co-operatives and, to them, I extend a special welcome and thanks, for their commitment to this co-operative development process.

The Registry of Co-operatives, which is part of my Department of Local Government and Co-operatives, will, through the Co-operatives Development Branch, extend whatever assistance is necessary by way of administrative support to the Steering Committee and the various Working parties, to ensure that this process is a success.

I think it is of particular significance that, we have been able to draw together such a distinguished group for the purpose of developing a strategy for the growth and development of the co-operative sector in this State. I wish you all a

successful meeting and I look forward to being able to participate with you, over the next few months, in Co-operatives 2000.

As many of you will, no doubt, be aware our association as Registrar and Minister began when Mr Peacocke was formerly the Minister for Business and Consumer Affairs. During that period the Minister has demonstrated a very strong commitment to, and appreciation of the role, co-operatives can play in the development of this State.

Co-operatives are not often sufficiently understood in the broader community and they need a strong advocate and promoter to have their views heard. Co-operatives in New South Wales are fortunate to have such a Minister in Mr Gerry Peacocke".

*Garry Payne  
Registrar of Co-operatives*

## WORKING PARTY C

At the meeting of the Working Party C held on 6th December 1991, which was chaired by Mr Jim Manwaring, the Members studied and discussed the objects of the project - Co-operatives 2000 and the terms of reference for the Working Party.

The following needs were identified :

- \* The necessity to promote maintenance of higher standards among Directors of Co-operatives, who, in many instances, lack business experience, knowledge of accounting principles, marketing, etc.
- \* The need for a literature search on ma-

terial relevant to co-operatives; especially in the area of education and training.

- \* The implications of new legislation for co-operatives and promotional and educational programmes necessary to educate the members of co-operatives of the new legislation and regulations.
- \* The need to develop a library/resource centre for co-operatives.
- \* The need for credentialing existing training programmes and planned training courses.
- \* The need for support of the State and Federal Government to promote and run the educational and training programmes



## WORKING PARTY D

The meeting of the Working Party D was chaired by Ms. Jennifer Mattila.

The following issues were discussed by the Working Party :

- \* National Co-operative legislation and Mobility of co-ops across state boundaries.
- \* Legislative initiatives required to implement Co-operatives 2000 Strategy recommendations and outcomes.

- \* Inter-relationship of Co-operatives law with Corporations law.
- \* Role of co-operative in facilitating micro-economic reform.
- \* Relative efficiency of cooperatives and other legal structures (eg statutory authorities, private companies, joint ventures).
- \* Industries to be targeted.
- \* Taxation treatment of co-operatives

## EDUCATION & TRAINING

for co-operatives.

- \* The need for input from industry into designing of education programmes and methodology for getting feed-back from industry on training courses.
- \* The need for a historical perspective of the co-operative movement to understand the evolution of co-operatives and the needs of co-operatives with a view to raise the standards of activities of co-operatives.

Each member would study an area and prepare a discussion paper to be considered by the Working Party.

## LEGISLATION & MICRO-ECONOMIC REFORM

and Reforms required

- \* Trade Practices Act: its effect on co-operatives and improvement in co-operatives' exemptions under the Trade Practices Act.
- \* Legislation of other bodies (eg Statutory Marketing Authorities) affecting co-operatives.

(Continued from Page 1)

## MINISTER LAUNCHES ...

growth of the State. He added that this process would involve identifying the trends and opportunities in the community which have a particular relevance to the co-operatives.

After explaining in detail the terms of reference for the Working Parties, the

Minister asked the members to be mindful of the six international co-operative principles, viz.,

- Voluntary Association and open membership,
- Democratic control,
- Limited interest in Share Capital,
- Equitable division of surplus,
- Co-operative Education,
- Co-operation among Co-operatives.

Referring to the Government's role, the Minister said that "... the Government's role should be to help facilitate development by providing the necessary structures within which the co-operative movement, and the broader community generally, can agree on a future sense of direction and purpose."

The Minister concluded his address by calling for commitment and willing participation to achieve success.

## FROM: EXECUTIVE OFFICER

The role of the Co-operatives 2000 process is to provide a forum for discussion and formulation of concrete plans for medium term development of the co-operative sector in New South Wales.

At the same time as this process for a broad strategic sector approach is taken for co-operatives development, a series of specific initiatives are under-way, including the proposal for a Co-operative Bank.

While a number of short-term projects may to some extent over-lap certain areas of interest to the Working Parties, it is nevertheless necessary to consider these activities and initiatives against the

background of strategic growth and development of the co-operative sector.

The task of Co-operatives 2000 is to provide an over-all planning umbrella so that the relevance of individual initiatives can be fully considered in the broader context, so a judgement and an assessment as to what is necessary for strategic sustainable development of co-operatives in NSW can be made.

The Working Parties should not feel curtailed in the examination of any area of interest simply because of either current or past work which has been carried out in those areas. There is, however, little point in "re-inventing the wheel" if basic areas have already been covered in recent studies in sufficient detail.

Our challenge is to examine all relevant



areas of co-operative activity and select for development those we believe most appropriate to the future growth of the co-operative sector in the State.

*Garry Cronan  
Executive Officer*

## TIME SCHEDULE

Meetings of Working Parties have been fixed for the following dates. The venue for the meetings is the Board Room, Level 24 MSB Towers, 207, Kent Street, Sydney.

Working Party	Date	Time	Working Party	Date	Time	Working Party	Date	Time
D	13 Dec 91	4.00 p m	D	28 Jan 92	4.00 p m	C	6 Feb 92	10.00 a m
A	7 Feb 92	11.00 a m	B	14 Feb 92	11.00 a m	C	27 Feb 92	11.00 a m

(Continued from Page 1)

## CO-OPS 2000

The methodology will include the following steps:-

• Working parties will identify major issues that will affect the growth and development of co-operatives in the next five to ten years.

• Working parties will report on the

issues; will recommend necessary programs to address these issues, will provide a time frame and budgets for the implementation of the programs.

• Steering Committee will consolidate the recommendations from the four Working Parties into a discussion paper the "Green Paper". Comments will be invited from the industry to the recommendations outlined in the "Green Paper".

• The Steering Committee will incor-

porate the appropriate industry recommendations into the final report "White Paper" that will be presented to the Minister.

It is expected that the "White Paper" will be available by July-August 1991.

It is hoped that the "White Paper" will become the document that will guide the Governments of New South Wales in developing policies to assist the strategic growth and development of co-operatives in New South Wales in the year 2000.

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# CO-OPERATIVES 2000

## Development Strategy

ISSUE 2

CO-OPERATIVES 2000 NEWSLETTER

JAN - FEB 1992

### FROM THE EXECUTIVE OFFICER

As the Chairman of Co-operatives 2000, Mr Don Kinnersley, has said - we are making excellent progress with Co-operatives 2000. The task before the Working Parties, at the moment, is to bring together, in a draft report, the ideas which have been discussed at the various working party meetings. It is important that we capture many of the very good ideas and suggestions that have been made by members in their working party discussions.

This approach will work more successfully if we adopt a standard format for the draft reports. Members should have, by now, seen the proposed format for the working parties' reports based on the Riverina Regional Strategy Paper. This format involves the identification of strategies, actions and outcomes designed to ensure that the working parties, not only address the current problems co-operatives may be facing in their respective areas, but also focus their minds on appropriate actions and outcomes to address these problems. The format is also designed to ensure that any opportunities identified for co-operative development are soon realized, again, by identifying the necessary outcomes and actions required.

The next major activity will be the Workshop which are separately reported in this Newsletter. I would encourage all working party members to attend and participate on the 30th April in what, I believe, will be a very successful meeting.

I look forward to meeting with various members of the working parties at the Workshop.

**Garry Cronan**  
Executive Officer

### EXCELLENT PROGRESS

Mr. Don Kinnersley, Chairman of the Steering Committee expressed his satisfaction at the progress of Co-operatives 2000 process at the Steering Committee meeting held on 28th February 1992 at the MSB Towers in Sydney.

The Chairmen of the Working Parties reported on the meetings held and at least two meetings had been held by each Working Party to-date. Each has assigned study of specific issues to members or groups of members and the majority of Working Parties are studying the preliminary discussion papers prepared by the members.

It was proposed at the meeting that it would be beneficial to adopt a report

format by all Working Parties, which would make their reports uniform. Guidelines were provided to the Chairmen and Mr. Kinnersley commented that it would be beneficial to prepare a frame-work for the reports of the Working Parties and formulate a plan of activity accordingly.

The next meeting of the Steering Committee would be held on 3rd April 1992.

### WORKSHOPS PLANNED

It has been decided to conduct a series of Workshops to obtain views of the co-operative movement on some of the issues that are being considered by the Working Parties of Co-operatives 2000.

The decision for a series of Workshops arises from the need for greater discussion of some of the more contentious issues being addressed by Co-operatives 2000. It would also facilitate greater involvement of the co-operative movement in the Co-ops 2000 process.

Input from Members of other Working Parties would be vital and the proposed Workshops would provide a forum to air the views on co-operatives' needs and wants in the areas of finance, education, etc.

The first Workshop has been fixed for 30th April 1992 to cover three basic areas : Raising of Capital by Co-operatives, Education and Training and Successful Models for Co-operatives.

The difficulties for a co-operative to raise capital in comparison to a company; should co-operatives venture into value-

adding activities as they may not be able to raise the necessary capital; whether the co-operative would need to convert to or float a body with a corporate structure to raise capital; are some of the issues to be addressed during the session on Capital.

What level at which to educate those involved in co-operatives; the scope for education and training; the directions to be taken in co-operative education; the value of external Directors and members' attitude towards them; the necessity for external Directors to understand the concept of co-operation and that service to members is foremost in co-operative's activities; would be covered during the session on education.

Successful models of co-operatives in various industry areas would also be examined to identify the critical factors in co-operative models.

## WORKING PARTY A

WORKING PARTY A held its second meeting on Friday, 7th February 1992, chaired by Mr. Duncan Campbell.

Sub-Committee 1, which is studying the problems encountered by co-operatives in raising capital, has considered the necessity for co-operatives to adopt a corporate structure in any capital raising attempts. The Sub-Committee is of the view that a co-operative, being a simple entity, had input only from members and its activities are geared towards servicing of members. Raising capital for special projects or expansion of activities through the membership is difficult. The view is that attracting investors would be easier if a corporate structure is adopted.

The following points were made by the Working Party members :

- a) Soundly-managed co-operatives may not have any difficulties in raising capital or attracting investors.
- b) Members may lose control of the subsidiary corporate body which is formed to engage in expanded activity. If such a body is formed, it would be essential to include provision for control by the parent co-operative.
- c) The present tax status for co-operatives, acts as a disincentive for capital formation in co-operatives according to the Chris Wallace report. A re-thinking of the tax policy for co-operatives may be required to correct this situation.
- d) The possibility of extending the

credit rating system to co-operatives should be explored as this may provide relatively easy access to credit for co-operatives.

e) Alternative ways of retaining capital by co-operatives, such as issue of bonus shares, debentures, etc., should be studied.

f) The trends in farm ownership is changing and the number of family-owned farms are dwindling, which has implications on the future financing of co-operatives.

Sub-Committee 2 has identified the following issues in credit unions lending money to co-operatives :

a) There are restrictions on commercial lending by credit unions which may restrain funding of co-operatives. The restrictions presently in force limit the quantum of a loan to 1% of the total assets of the Credit Union and limit the total quantum of commercial loans to 10% of the assets. The situation may change with the introduction of the Australian Financial Institutions Commission (AFIC) legislation.

b) Operational expertise of credit union personnel would have to be developed especially in the area of assessing the credit worthiness of co-operatives.

c) The existing high level of prudential standards will have to be maintained in lending to co-operatives.

d) The ability or the desirability for a co-operative to "bank" with a credit



issue "Quality assurance" is too restrictive and should be more appropriately re-stated as Total Quality Management. Participants were urged to identify many sub-issues to be considered under the two main headings. For example, it was suggested that management and directors may have an important role to play in co-operatives in successfully directing the activity of a co-operative in the area of export

## FUNDING & REGIONAL DEVELOPMENT

union will have to be investigated and a policy position formulated by the co-operative movement.

The possibility of establishing a linking mechanism between credit unions for syndication of loans to co-operatives will be explored by the Sub-Committee. The proposed co-operative bank may change many of the perspectives on funding of co-operatives.

Sub-Committee 3 raised the following points :

a) Chief areas for regional development have been identified as agriculture, tourism, aged services, waste management and infrastructure.

b) The Regional Development Section of the Department of State Development (DSD) is considering a pilot project to implement Regional Development Board recommendations. The DSD would be approached to discuss the possibility of co-operatives having a profile in the pilot project.

c) It would be desirable to focus on a specific region and a specific strategy to ensure action.

d) The possibility of second-tier co-operatives providing resources for on-going activities of co-operatives should be considered.

e) Co-operative culture, relations and ideology are important for the successful running of co-operatives.

f) There is a necessity to convince participants in regional development that co-operatives are economic building blocks.

## WORKING PARTY B

WORKING PARTY B held its second meeting on Friday, 14th February 1992. The meeting was chaired by Mr. Ian Davidge.

Discussion developed around the issues that are relevant to Working Party B. It was agreed that the two main issues to be considered by the Working Party are:

- a) Export & Export Development and
  - b) i) Value Adding/ Processing
  - ii) Domestic Marketing
- Participants suggested that the sub-

## TRADING & VALUE-ADDING

development and value adding.

It was agreed that it is important to establish whether information (statistics) are readily available regarding the performance of NSW co-operatives in the areas of export and value adding.

The Working Party formed two Sub-groups, each dealing with one of the two main issues. Sub group A studying Export & Export Development will be convened by Mr. Peter Critchley and Sub group B studying Value Adding/ Domestic Marketing will be convened by Mr. Tony Harding.



## WORKING PARTY C

**WORKING PARTY C** held its second meeting on 13th February 1992 at the Registry of Co-operatives, Parramatta. The meeting was chaired by Mr. Stan Rumbel in the absence of Prof. R. Packham, who was abroad.

The papers presented by members on the issues being investigated were considered and the following agreed upon :

- \* Success of a co-operative depends on the quality of the Board and its Directors. The Board needs to critically evaluate its performance to ensure the growth of the co-operative. Directors should understand and be knowledgeable on proper business practices

- \* The roles of Board of Directors are changing with legislation stipulating expanded duties and responsibilities for directors. The right mix of skills and experience in a Board of Directors is vital.

- \* It may be necessary to have minimum standards for Directors.

- \* A 'credentialing system' is necessary for Directors in co-operatives.

- \* In co-operatives, Directors are drawn from members and there is a need to train the member directors in co-operative principles, management responsibilities, financial management, etc. The Directors then should train members on operations and objectives of the co-operatives.

- \* External Directors would be valuable for education of member directors although appointment of external Directors may, some times, defeat the 'active membership' rule. It would be necessary to devise ways of making independent directors be accountable to members and to serve members' interests in co-operatives.

- \* Management of co-operatives is difficult in comparison to investor-oriented companies (IOF's), specially as the managers would have to deal with problems arising from the co-operative's distinctive characteristics. It would be essential to have managers who understand the distinction between co-operatives and IOF's for the co-operative to be commercially successful.



Sub-Committee and Forum in relation to taxation was to identify

- the current taxation situation;
- any necessary changes; and
- how to achieve these changes.

March '92 is the next scheduled meeting of the Taxation Sub-Committee which will continue work on the income tax issues and commence work on other tax issues.

### Trade Practices

Main issues identified by the SubCommittee relate to s47 and s46 of the Co-operative Act.

Trade practices guidelines in relation to fishing co-operatives will be developed by the Co-ordinator.

A draft paper on the new Co-operatives Bill has been completed which will be circulated to working party members and will cover these topics:

- overview of the Bill;

## EDUCATION & TRAINING

- \* Adherence to a special set of principles may be needed in recruitment of managers by co-operatives. 'Recruitment firms' should develop skills in selection of managers for co-operatives and that it may be desirable for some recruitment firm to specialise in 'head-hunting' for co-operatives.

- \* Modern corporate management skills could be applied to co-operatives and that managers need to interact with various other sectors and develop market relationships.

- \* There is a need to develop duly-recognised courses for co-operative managers to ensure career paths for them.

- \* Independent directors in co-operatives should receive sufficient remuneration in recognition of their skills.

- \* Co-operatives could pool their resources in the area of training, and the establishment of a common pool of experts, should be explored.

The members also studied current training material and courses available.

## LEGISLATION & MICRO-ECONOMIC REFORM

- new option for co-operatives without share capital; and
- differences between co-operatives and companies.

A meeting is to be arranged between the Trade Practices Commission (TPC) and the Sub-Committee with the aim of developing guidelines for co-operatives' rules which would result in automatic authorisation by the TPC of such rules when used by a co-operative.

### Legislation

At this stage three papers are to be prepared by this Sub-Committee.

(i) Interrelationship between Corporations Law and the Co-operation Act/Bill with a focus on implications for mobility of co-operatives' access across state borders.

(ii) Review of the Co-operatives Bill - new possibilities for co-operatives.

(iii) Review of the Co-operatives Bill - possibilities for micro-economic reform.

## WORKING PARTY D

**WORKING PARTY D** held its third meeting on 28th January 1992, chaired by Ms. Jenni Mattila. Progress Reports of Sub Committees were reviewed and the following issues emerged :

### Micro-economic Reform

The Sub Committee has met twice on 13 December and 28 January and discussed the issues and sources of information and contact people have been identified.

A general paper on micro-economic reform will be prepared that will summarise the elements of micro-economic reform and how co-operatives can facilitate a government's micro-economic reform program.

### Taxation

The Sub-Committee met on 11 December as part of the Forum of Authorities on Co-operative Taxation (FACT) Committee, an initiative co-ordinated by the Australian Association of Co-operatives (AAC). The aim of the

## ORGANISATIONS INVOLVED IN CO-OPERATIVES 2000

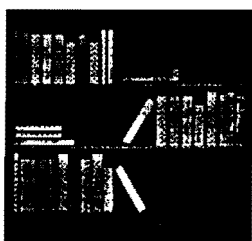
The Co-operatives 2000 process has drawn together individuals with extensive and wide-ranging experience and disciplines. They are working or have worked in the following organisations:

Abrasiflex Workers Co-op. Ltd.  
Adelaide Saving Credit Union  
Angus & Robertson  
Asia-Pacific Centre for Co-operative Research Training and Development  
Association of Credit Unions  
Association to Resource Co-operative Housing Ltd.  
Australian Association of Co-operatives  
Australian Co-operative Foods Ltd  
Australian Food Marketing Centre  
Australian Law Reform Commission  
Australian Pork Producers Federation  
Australian Securities Commission  
Australian Television Network 7  
Australian Wheat Board  
Banana Growers Federation Ltd.  
Baron Partners Ltd.  
Batlow Fruit Co-operative Ltd.  
BHP Engineering  
Blake Dawson Waldron  
Bread Research Institute of Australia  
Budge-Ellis Staff Co-op. Ltd.

Business in the Community Ltd.  
Cabcharge Aust. Pty. Ltd.  
Cargill Australia Ltd.  
Co-operative Development League Ltd.  
CSIRO  
CSR Ltd.  
Dairy Research & Development Corp.  
Darling Downs Bacon Co-op.  
Deloitte Ross Tohmatsu  
Dept. of Agriculture, Victoria  
Dept. of Industrial Relations, Employment, Training & Further Education  
Dept. of Manufacturing, Victoria  
Eastern Suburbs Country Youth Asso  
Education & Training Foundation Pty.  
Equasearch Ltd.  
Federal Dept. of Social Security  
Fish Marketing Authority  
Hassall & Associates Ltd.  
Homebush Abattoir Corporation  
Ingham Enterprises  
Mauritius Sugar Syndicate  
Meyers Strategy Group  
Mildura Fruit Co-op.  
Milk Marketing (NSW) Pty. Ltd.  
Minter Ellison  
Nambucca Rivers Co-operative Ltd.  
Nelson Parkhill BDO  
Norco Co-op. Ltd.

NSW Dept. of Agriculture  
NSW Dept. of Housing  
NSW Egg Producers Co-op. Ltd.  
NSW Farmers Association  
NSW Grain Research & Development Corporation  
NSW Premier's Dept.  
NSW Rural Industry Training Council  
NSW Spanish & Latin American Association for Social Assistance Inc.  
NSW Taxi Industry Association  
NSW Treasury  
Office of Aboriginal Affairs  
Plessy Communications  
Plumbers' Supplies Co-op. Ltd.  
Pro-Ned Australia  
Prospect Credit Union Ltd  
Renmark Fruit Growers Co-op. Ltd.  
Rice-Growers Co-operative Ltd.  
Rivergrowers Co-op Ltd.  
Southern Farmers  
Taxis Combined Services Pty. Ltd.  
University Co-operative Book-shop Ltd.  
University of Newcastle  
University of Sydney  
University of Western Sydney  
Victorian Credit Co-op Ltd.  
Woollahra Municipal Council  
Woolworths Ltd.

## BOOK-SHELF



Prior to the launch of Co-operatives 2000, the Registry of Co-operatives addressed various international organisations to obtain publications on development of strategies for co-operatives. Some of the publications received are listed below. The list will be continued in the next issue.

- \* Co-operative Legislation in Central & Eastern Europe, International Co-operative Alliance
- \* Co-operative Management & Administration, International Labour Organisation
- \* Co-operative Perspectives on the Future, Canadian Co-operative Association
- \* Co-operative Training Policies, International Labour Organisation
- \* Empowerment through Co-operatives published by University of Saskatchewan, Canada
- \* The Co-operative in the Competition of Ideas - European Challenge, Report of the XI th International Congress on Co-operative Science, Munster, Germany

## SCHEDULE OF MEETINGS

Steering Committee		Working Party A		Working Party B		Working Party C		Working Party D	
23/9/91	1st	6/12/92	1st	6/12/91	1st	6/12/91	1st	6/12/91	1st
6/11/91	2nd	3/2/92	SC3	14/2/92	2nd	13/2/92	2nd	11/12/91	SC2
6/12/91	3rd	07/2/92	2nd	4/3/92	SC1	4/3/92	3rd	13/12/91	SC1
24/1/92	4th	17/2/92	SC1	4/3/92	SC2	1/4/92	4th	16/12/91	SC4
28/2/92	5th	6/3/92	SC3	4/3/92	3rd			28/1/92	2nd
3/4/92	6th			3/4/92	4th			4/2/92	SC1
1/5/92	7th							12/2/92	SC4
								20/2/92	SC3
								13/3/92	3rd
<div> • WORKSHOPS on Special Issues 30/4/92 </div>									

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# CO-OPERATIVES 2000

## Development Strategy

Issue No. 3

CO-OPERATIVES 2000 NEWSLETTER

MAR 1992

### FROM THE EXECUTIVE OFFICER

The Co-operatives 2000 process is very much concerned with sharing and exchanging information relevant to co-operative development in this State.

This issue of the Co-operatives 2000 Newsletter contains an article on Boards of Co-operatives by Karen McMillan of Working Party C, as well as an article on capital raising by co-operatives in the United States. Such articles are to be welcomed and I would encourage anyone from any of the Working Parties who has a particular view on co-operatives and their activities to submit articles for inclusion in the Newsletter.

Progress reports of the Working Parties contained in this issue of the Newsletter mention a number of papers prepared by Working Party members. Copies of these reports are available from :

Registry of Co-operatives  
P O Box 249  
Parramatta NSW 2124.

Garry Cronan  
Executive Officer

### RESEARCH PROJECTS IDENTIFIED

Several possible research projects have been identified for commissioning by the Steering Committee arising from the discussions at various meetings of the Working Parties. The findings would contribute significantly towards development of the Co-operatives 2000 strategy. Apart from this primary benefit, the findings would also provide a sound basis for understanding the co-operative sector, the influencing factors that contributed to its growth in the past and will lead to development of performance indicators for co-operatives with comparison to the corporate sector.

The research projects proposed are briefly outlined below :

#### HISTORICAL PERSPECTIVES OF CO-OPERATIVES

To obtain a historical perspective of co-operatives in New South Wales and Australia, their evolution and influencing factors in the past. For example, whether co-ops were more effective during recessionary periods; whether Govt. initiatives were effective in Co-op development; etc.

#### SURVEY OF CO-OPERATIVES

To conduct a qualitative/quantitative survey of a selected number of co-operatives in the areas of difficulties in capital raising, financing of vertical expansionary activities, educational needs, realisation of full export potential by co-operatives, value adding activities, etc.

#### VALUE-ADDING BY CO-OPERATIVES

To evaluate the value-adding activities of co-operatives, identify the constraints and difficulties faced and opportunities for co-operatives in value-adding activities in the future by analysing the activities of co-operatives using the Australian Standard Industrial Classification (ASIC) system.

#### FINANCIAL PERFORMANCE OF CO-OPERATIVES

To obtain collated data on financial performance of co-operatives in N.S.W. and comparative national data and analyse performance using the ASIC coding system.

#### CAPITAL RAISING BY CO-OPERATIVES

To examine the capital raising efforts of co-operatives over the past 10 years and to identify constraints faced for comparison with remainder of co-ops.

#### "TOP 100" CO-OPERATIVES

To examine the performance of the 'top 100' co-operatives, and to identify their growth factors.

#### ECONOMIC AND SOCIAL INDICES FOR CO-OPERATIVES

To develop a set of economic and social indices to be applied to the performance of the co-operatives in the set economic and social goals, which would enable measurement of their performance against the corporate sector in a more balanced way.

## WORKING PARTY A

The Working Party A has made satisfactory progress according to its Chairman Duncan Campbell.

Reporting on the progress at the Steering Committee meeting on April 3rd, 1992, Mr. Campbell said that the three Sub-Committees formed to deliberate on issues related to Capital Raising, Financing of Co-operatives by Credit Unions and the Role of Co-operatives in Regional

Development have met regularly to discuss the recommendations to be made.

Draft papers are being written by members of the Working Party and these papers are expected to be finalised during April.

Mr. Campbell also indicated the necessity of gathering relevant information and statistics to present a comprehensive coverage of the issues assigned to the Working



Party identify factors that are present in successful co-operatives and also, if possible, to think about factors that may be responsible for the non-performance in less successful co-operatives. Mr. Davidge emphasised that the Working Party should try and confine the search for these important benchmarks to the main issues under considera-



were made :

- \* Enormous need for education, not only in many areas including the academia and the various strands of the media.

- \* Need to define what a co-operative is, in order to show the specific differences between a co-operative and a company and other business structures so that lay per-

## FUNDING & REGIONAL DEVELOPMENT

Party.

Mr. Campbell observed that the discussions at the Workshop scheduled for 30th April 1992 would also contribute to the recommendations to be made by Working Party A.

A meeting of Working Party A will be fixed when the reports of the Sub-Committees are finalised.

## TRADING & VALUE-ADDING

tion, i.e. value adding and trading. Peter Critchley and Tony Harding, members of the Working Party, reported respectively on the progress of two sub-groups that they are co-ordinating.

Both sub-groups are now in the process of identifying objectives, programs and actions under the two main headings: Value Adding and Export Development.

The next meeting of the Working Party has been fixed for 8th May 1992.

## WORKING PARTY B

Mr. Ian Davidge, the Chairman has expressed his satisfaction with the progress of Working Party B at a meeting held on April 3, 1992.

Mr. Davidge stressed that participants should start thinking of presenting their written reports in the form agreed on previously, i.e. identify objectives/strategies, then outline actions/programs for each objective/strategy and, finally, outline the outcomes expected from each program.

Participants should attempt to

## WORKING PARTY C

The third meeting of the Working Party C was held on 4th March 1992 at Parramatta. Prof. Roger Packham chaired the meeting. The topics viz. Promotion and Publicity and Attitudes, which were yet to be discussed, were studied at the meeting.

The salient features of Mr. Rumbel's paper on Attitudes was discussed and the following points

## EDUCATION & TRAINING

sons, interested parties, professional people and service providers can understand the distinction.

The paper prepared by Mr. Potts on Promotion and Publicity was discussed and the following points emerged :

- \* Introducing a common thread such as a co-operative logo and the need to co-ordinate education and training with promotion

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## BOARDS OF CO-OPERATIVES

Every organisation, be it commercial, charitable, private, public or co-operative, must be well managed if it is to survive and be successful. While, historically, there have been philosophical differences between co-operatives and other commercial enterprises, both need to survive and be successful.

Co-operatives, along with other organisations, now realise that the needs of members are best served when the enterprise is responsive to changing environments, when it is sensitive to market needs, when it manages funds and resources efficiently and when, at the end of the day, there is a healthy bottom line result.

Co-operatives must be commercially driven. The trend to commercialisation of organisations is mirrored in Govt. trading enterprises, arts organisations and charitable institutions. No one, in these times, want to foot the bill when an organisation is mismanaged.

The quality of the board and its directors is a key factor in the success of any enterprise. The board of a co-operative is not very different from any other board. Essentially it has the same role and the same responsibilities. If the boards of co-operatives are to perform that role well, if they are to add value to their organisations, then they will need to critically evaluate their performance and the quality of directors appointed to those boards.

### The Role of the Board

The board is a key player in the system of Corporate Governance which controls the behaviour of corporations. The Corporate Governance system is designed to hold companies accountable for their actions to shareholders, regulators, consumers, suppliers, interest groups, financial markets and the community as a whole. Other elements in this system of checks and balances include regulators, owners, management and public opinion.

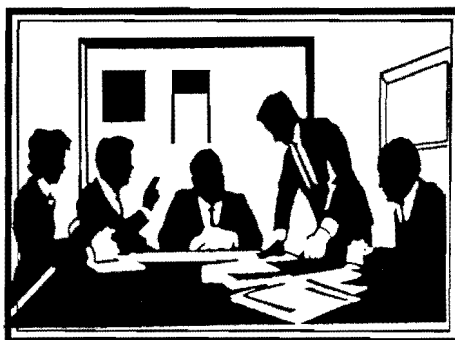
Under the Public Company model, the role of the board can be described as follows:

1. To ensure the long and short terms success of the enterprise;
2. To set goals and plans, or strategy;
3. To appoint and monitor management;
4. To ensure a proper board/management

relationship is formally established;

5. To monitor enterprise performance;
6. To fulfil regulatory and legal requirements;
7. To delegate precisely;
8. To establish and constantly review proper outside relationships (consumers, press, government, community, interest groups);
9. To set ethical standards and be the measure of the enterprise's corporate behaviour and morality.

Under this model, the board acts as pilot, trustee and super auditor, certainly on behalf of shareholders, but also increasingly taking into account the needs of consumers, suppliers, creditors, lenders, the community and special interest



groups. The accountability of corporations is widening to include these other interests.

The value the board can add to the corporation stems from the breadth and independence of judgement that can be exercised by a group of experienced professionals who are, themselves, removed from direct operational responsibility. Only at board level can the corporation achieve a true 360° perspective of its activities - a comprehensive and synthetic view of its business.

The role of the co-operative board is no different from the role of any other board. It also needs to have a breadth of experience amongst its members to enable it to carry out this role properly, professionally and confidently.

Co-operatives are formed on a different basis to public companies. Usually a co-operative is formed because members believe that by joining forces they can bring about better prices for their product or greater marketing opportunities or better investment returns than

they would be able to achieve as individual growers, producers or investors. They 'co-operate' in order for mutual gain.

It is sometimes argued that this is quite a different motivation to those of investors in a public company, who are seeking a good return on their investment. However, it is suggested that co-operative members are also seeking a good return on their "investment". That return might not necessarily be expressed as profit for the co-operative enterprise itself, rather as profit opportunities for individual members. Whether you can have one without the other is a moot point. Certainly, co-operative members do not want a 'Mickey mouse' operation acting on their behalf.

Motivation in public companies are themselves becoming much wider than the pursuit of profit above all else. The bottom line is not the only way the modern corporation judges its performance. There are many cases of businesses which have maintained short-term profit margins, only to fail because they were not responsive to market changes and did not plan ahead. Rather than becoming more divergent, the goals of companies and co-operatives may be becoming increasingly similar as members understand that their individual goals will not be achieved unless the long term future of the co-operative is assured.

The board of a co-operative must see its role not only as ensuring the co-operative's success, but also as achieving whatever the members have defined as their primary goal. It is for this reason that members have sought to control the board of their co-operative and have restricted the selection of directors to co-operative members.

Whether co-operative members have cut off their collective nose to spite their collective face is a question that must be raised. By restricting board membership to co-operative members, have they limited the board's ability to perform, to add value to the enterprise?

The question of accountability to a wider public cannot be ignored by co-operatives, just as it cannot be ignored by companies. Poor business practices, losses and closures have an impact on the

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wider community. Like other boards, co-operative boards have a responsibility to consumers, to the environment, to regulators, to neighbours just as companies are accountable to a wider group than shareholders.

Although co-operatives are not (yet) bound by the new Corporations Act 1991, Case or Common Law most certainly applies. Additionally, the Fair Trading Act 1989 and the Co-operatives and Other Societies Act 1967 regulate co-operative behaviour.

New laws and market attitudes towards "competition" may also impact on the behaviour of co-operatives - deregulation of tariff protection as one example. It is likely that there will be more, rather than less, regulation of corporate behaviour. Our society is demanding greater accountability from all business enterprises, whether they are private or public as the impact of business on the wider populace is more clearly understood. Co-operative boards will need to face these new challenges.

**Elements of an Effective Board**

K N Dayton, in the 1984 Harvard Business Review, wrote:

"Every time you find a business in trouble, you find a board that is unwilling, or unable, to fulfil its responsibilities"

There are a number of elements which are essential in order to maximise the effectiveness of a board:

- \* Balanced composition;
- \* Diverse skills and backgrounds;
- \* Task and performance orientation;
- \* Flexibility in outlook;
- \* Not too large;
- \* Effective and strong Chairman;
- \* Democratic in nature;
- \* Accountable and visible.

**Board Composition**

It is widely accepted that boards should have a majority of external non-executive directors, some of whom should also be "independent" of the company.

The ratio of non-executive to executive directors on Australian boards, according to the 1991 Korn/Ferry International Australian Board Study is as follows:

Private Companies	4.1 : 1.8
Public Companies (listed)	6.6 : 2.5

Public Companies (unlisted)	6.3 : 2.6
Government Bodies	8.1 : 1.4
Over all categories	6.4 : 2.3

**Independence**

The Corporations Act 1991 specifies that directors of a company must act in the best interests of the company as a whole, not some other interests. This means that directors should not represent a particular interest group such as a major shareholder, creditor or consumer group. Any director who cannot demonstrate independence of judgement is vulnerable in today's regulatory climate.

While co-operatives are not bound by the Corporations Act, directors of NSW co-operatives are required to "avoid conflict of interest" and to "act for proper purposes in the best interests of co-operatives".

The "Corporate Practices and Conduct" paper, released last year by the Business Council of Australia and a number of other organisations, defines an independent director as one who :

i) does not have a contractual relationship with the company other than the office of director and therefore not subject to control or influence;

ii) does not have any other relationship with the company which could affect the exercise of independent judgement.

PRO-NED would insert two additional criteria :

iii) is able to resign without financial embarrassment of any sort;

iv) does not at any time beneficially own or represent more than 5% of voting shares in the enterprise.

The need for independence on the board is best illustrated when issues arise where conflicts exist between management and shareholders such as determining executive remuneration levels, replacing under performing managers and during merger or takeover negotiations.

Whether it is possible for members of a co-operative to have that independence of thought needs to be questioned.

**Size of the Board**

Too large a board can be unwieldy and can in fact destroy board cohesion. Nevertheless, the board must have sufficient members to cover the identified range of skills and experience.

The most appropriate size should be a function of the size of the enterprise and

its operations, its spread across different sectors of the economy and its international spread; if any.

**Right Mix of Skills and Experience**

An effective board should include people with a diverse range of skills and backgrounds. A homogeneous board, composed of all bankers or all farmers for example, runs the risk of becoming a club and is unlikely to be stimulating and questioning.

Desirable backgrounds might include experience in specific industries or disciplines, specialist qualifications or experience and knowledge of other commercial and non-commercial factors.

Skills required at board level will be basically related to strategic capacity, analytical abilities and interpersonal relationships and dealings. The right "mix" will depend on the needs of the enterprise.

Co-operative boards, under current membership conditions, have problems achieving a broad mix of skills and experience, simply because members, by definition, come from similar backgrounds and have similar experiences.

**The Chairman**

The role of the Chairman should almost always be separate from that of the CEO. This is the trend in Australian companies. Only for very exceptional, usually temporary, reasons should the two roles be combined in one person.

The role of the Chairman is changing, just as the role of the independent director is changing. These days the Chairman is more like the Chairman of the company, rather than the Chairman of board meetings. He or she is expected to represent the company to the media, the market and the public. The Chairman must also ensure that the organisation has a clear vision for the future and, together with the CEO, communicate that message to staff, to shareholders, to consumers and to other interested parties.

Such a role demands quite different skills to those needed to chair a meeting. And they are hard to find. Nevertheless, the appointment of a Chairman is probably the most important appointment in the whole enterprise. This is equally true of co-operatives as for public companies.

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### Responsibilities of Directors of Co-operatives

The responsibilities and liabilities of directors of all sorts of enterprises are widening as society demands greater accountability from commercial organisations. Directors' duties now include a responsibility to other groups besides shareholders - to creditors, to employees, to the environment, to consumers. A bewildering array of legislation and regulators now have an impact on company directors.

While co-operatives are not yet bound by the Corporations Act, the trend is to more legal controls over businesses - public, private or government.

The directors of a co-operative are appointed by the members to act as their "agents" to manage the co-operative on their behalf. According to Derrick Wilde, in his booklet "Directors' Responsibility in Australian Co-operatives", directors of co-operatives should "fully understand that they are obligated to preserve and strengthen the co-operative character of the organisation, especially through encouraging member involvement and in keeping the members informed". (1989)

In New South Wales, directors of co-operatives have the following legal duties under the Co-operation Act (1923):

1. To show reasonable care and skill;
2. To avoid conflict of interest;
3. To act for proper purposes in the best interests of the co-operative;
4. The duties of an agent;
5. To disclose any financial interest in a contract with the co-operative;
6. A duty not to vote when he has an interest in a contract with the co-operative.

Directors of co-operatives are also bound by Common Law principles and other legislation such as taxation laws, trade practices, environmental protection, industrial relations, occupational health and safety, equal employment opportunity, dangerous goods and customs and excise laws.

Under the NSW Act, directors shall not be held liable to the society for any loss that the society may sustain unless this loss was due to wilful misconduct or gross negligence or failure to comply with any provisions of the Act or of the regulations or of the rules of the society. This exclusion from liability is unlikely

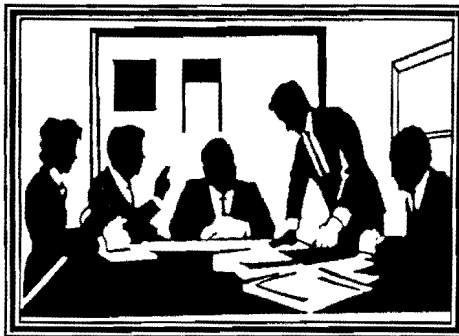
to continue given increasing pressures on companies and business enterprises to be more accountable.

### Quality of Directors

The widening of all directors' duties and responsibilities is demanding a greater level of skill and knowledge from directors. In order to properly perform their duties, directors need to be conversant with legal issues, financial and management reporting, environmental issues and health and safety practice.

It is likely that a 'business judgement' rule will be introduced into Australian Company Law. This rule would oblige directors to keep informed of matters relevant to the company's affairs and to exercise discretion, or demonstrate a reasonable degree of care in relation to these matters. Ignorance is no longer an acceptable defence.

Boards are also becoming much more



pro-active in the governance process, particularly in the areas of strategic planning and direction. This more active role requires a sound knowledge of strategic issues like marketing, economic forecasting, industry analysis and cash-flow projections.

There are increasing pressures on directors to be more professional, to spend more time on the affairs of the company, to attend all board meetings and to hold them more regularly. Public company boards are now taking a more objective approach to board appointments, selecting according to the skills and experience needed by the company.

As a group, they are unlikely to have that breadth of commercial, marketing, finance and industry expertise that one would expect to find on a public company board.

\* Members are likely to have relatively limited experience of strategic planning. They are often isolated from current thinking and trends in management, planning and accountability.

\* Whilst member directors might be regarded as non-executive in the sense that they do not have executive roles within the co-operative, they cannot be classified as Independent non-executive directors. This can be a serious shortcoming for the board of a co-operative composed entirely of member directors.

\* Members of a co-operative board must face difficult conflicts which business directors in general will not face. The grower sells to the co-op, so is both a supplier to the company and a shareholder. Each shareholder/director is a customer cum supplier cum investigator. It is very difficult to balance these interests with the need to consider the long term development and growth of the co-operative.

\* Many co-operative board members are country town based where the closeness of community life also makes it difficult for directors to remain impartial and objective.

\* The lack of adequate breadth of commercial, financial and marketing experience means that the Managing director, or General Manager, and management have too much power for their own good, let alone the good of the company. Management cannot be properly evaluated and monitored.

### Independent Directors on Co-operative Boards

A number of co-operatives are beginning to understand that a board composed of all member directors can result in serious limitations to board performance. Some co-operatives are now changing their constitutions so as to allow the appointment of some commercially skilled and experienced non-members to their boards in order to fulfil particular needs of the co-operative.

An effective board needs active skilled and professional people who will ask questions, who will find out as much as possible about the enterprise and who will devote time and energy to their responsibilities. Most enterprises now seek people who have solid business and commercial experience, people who can draw on the experience of running or helping to run a successful business.

Independent directors can bring a whole new set of skills to the board, balancing the expert understanding of the industry and the co-operative which

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might be expected from both management and member directors, with a broader, more objective view from a wider set of industry and functional experiences.

This wider view acts as both a challenge to management and an extension to the set of possibilities and alternatives which can be considered by the board. The problems of homogeneity can be overcome through the introduction of people on to the board who have a different set of skills and experience.

However, just as the views of management and member directors can benefit from exposure to a set of broader experiences, the independent director on the co-operative board needs to be brought up to speed on the industry and the activities of the co-operative.

A number of issues need to be considered regarding the appointment of independent directors to the boards of co-operatives:

- \* The Chairman, and Deputy Chairman if there is one, must be personally committed wholly to the conceptual thinking behind the proposal to appoint an independent director and very determined to make it work — with the whole board behind them.

- \* There must be an atmosphere of complete trust between members of the board and a determination to give that trust to the independent directors.

- \* The General Manager/Managing Director must be whole-heartedly with and behind the board in making this move. A strong CEO welcomes being questioned and tested. If he doesn't, then the rest of the board should be very alert indeed.

- \* One independent director is not enough. It is too hard for one person, in a sense standing alone, to be the only outside eyes and ears of the board.

- \* Every such independent director must have broad commercial experience.

- \* The two or three independent directors appointed to any one co-operative board should bring together financial, manufacturing and marketing in such measure as may be needed for that particular board.

- \* One of the first things any such independent director is likely to suggest (often as a condition of joining the board) is the creation of an Audit Committee — on which the independent directors should unquestionably sit. This committee

should meet at least four times per year; per audit; post-audit; mid-year and pre-budget.

- \* The Audit Committee can become one of the most useful tools for the board. It makes a lot of sense for that committee to meet for an hour or two, or whatever is necessary, immediately before each board meeting.

- \* The Chairman should ensure that this committee does not become a caucus. This is just another part of a Chairman's increasingly important role, for which, in a co-operative or any other company, he should be properly paid.

## REMUNERATION OF DIRECTORS

### Independent Directors

A person of the right standing and experience who is going to give up the necessary time and truly contribute to the strategic thinking and future success of even a smallish co-operative, is entitled to be properly rewarded. It is in the co-operative's best interest to appoint the best possible people to represent them on the board and to look after their interests. In order to attract such people, co-operatives will have to reward them at commercially acceptable rates.

The actual quantum will vary, depending on the size and complexity of the co-operative and the time commitment expected from that director. As a guide from which to start, it is certain that anyone worth considering for the appointment is going to be talking at the very least A\$ 15,000 per annum, and more likely A\$ 20-25,000 for bigger concerns. This fee could be split between a director's fee and an audit committee fee of say A\$ 5,000 per annum should this make the total more acceptable to Members.

To some co-operatives who have, in our view wrongly, paid their member directors nothing or a very small fee, these may sound like high fees. However, each co-operative must weigh up carefully what they expect to get in return — and then put themselves in the shoes of experienced and professional directors of the 1990's.

The old days of paying directors little more than pin money have long gone — along with limited liability and passive direction. The fees quoted here are the minimum going rate for Independent directors. Co-operatives are strongly

urged to think hard about what they expect from directors and what value they place upon that contribution.

### Member Directors

The remuneration of Member directors should also reflect the skills and experience of those directors and the time they devote to co-operative matters.

While it is certainly the case that Member directors could not expect the same remuneration as Independent directors who have a much more extensive commercial background and a broader skill base, nevertheless member directors should receive some fair recompense for the time and energy they expend on behalf of the company. With increased duties and liabilities likely, this is all the more important.

### The Chairman

The Chairman generally contributes at least twice the amount of time contributed by the other directors. Given the increasingly demanding role of the Chairman and its strategic importance, co-operatives should allow at least twice the figure for other directors, more if the co-operative is large and complex.

### Audit Committee Membership

Base fees do not always take board committee work into account. Nowadays this extra involvement is almost always regarded as a separate involvement, meriting an additional fee. Depending on how often the committee meets, and how important and complex its tasks, committee fees vary from A\$ 3,000 to A\$ 10,000 per annum for members, and A\$ 4,500 to A\$ 15,000 for Chairmen.

The responsibilities of Audit Committee membership are onerous and are particularly important to those directors who are not members. The role of the Chairman of the Audit Committee is especially important since he is the channel of communication between the committee, the board, management and the internal and external auditors.

**Karen McMillan**

Karen is the Consultant/ Research Manager of Pro-Ned Australia. She is a member of Working Party C. Pro-Ned Australia is a non-profit company formed for promotion of non-executive directors.



# CAPITAL-RAISING BY CO-OPERATIVES

Different views could be taken on the problems encountered by co-operatives in raising capital for financing expansion of their activities.

One school of thought is that co-operatives have to resort to members to raise capital and that members may not be able to inject the required amount of capital. This results in a need to attract outside investors. Given that there is a lack of confidence in 'old-style' co-operatives which are seen as groups of farmers getting together to sell their produce, the co-operative would find it difficult to get investors, in comparison to a company. The deduction is that the co-operative would need to convert to or float a body with a corporate structure, an investor owned firm (I.O.F.), to raise the capital required.

Naturally, 'co-operators' disagree and argue that well-managed co-operatives have no difficulty in attracting investors, specially with the changing trend in co-operatives, which are realising that good financial management is essential for the long-term success of the co-operative.

Randall E. Torgerson, Administrator of the Agricultural Co-operative Service of the United States Dept. of Agriculture states as follows in his paper: Challenges and Opportunities for Co-operatives in 1990's, presented at the National Society of Accountants for Co-operatives 1991 Convention in Washington D.C.:

"... 1) producers maintaining equity interest in I.O.F.'s find that they are the minority share-holders and have no say or controls was true when they were owner-users of a co-operative. Producer interest and influence vastly diminished.

2) producers no longer have the benefit of the yardstick role of co-operatives as a dimension of market structure.

3) the co-operative is no longer there as an institution to protect and enhance farmers' interests for the next and succeeding generations. Most producers have that interest in mind.

4) need for a co-operative often continues, however, at a much higher capitalization price than the assets just given up through a conversion, i.e. it will cost a lot more to get a new one going.

5) development of markets for farmers' products takes a long term commitment to build a consumers' franchise for

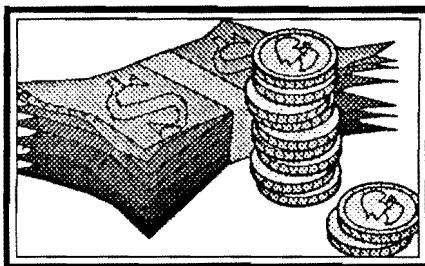
products. Co-operatives are never adequately compensated for the value of the market development effort.

6) in many cases, sale of assets is playing right into the hands of growth oriented IOF's that may be seeking to display farm operators as well as their co-operatives."

Although these comments are based on agricultural co-operatives, their validity could be extended to other types of co-operatives. Torgerson goes on to say that "... At the root of many situations that may lead to abandonment of co-operative business principles are faulty business practices. The best co-operative alternative is to identify these practices as problematic and to straighten them out rather than throwing the baby out with the bath water."

Torgerson also lists "... elements promoting the use of outside equity by co-operatives or the conversion of co-operatives to I.O.F.'s" as follows:

"1) Security firms, accounting firms,



law firms, financial houses, and consultants who would profit from handling such transactions, and who have little appreciation for what co-operatives are and what they do;

2) Overzealous managers who would convert the organization for their own aggrandizement such as controlling ownership interest, high pay and benefit rewards;

3) Certain manager cults who are more concerned with "keeping up with the Jones" or "bandwagon" attitude by taking assets out of producer control through public offerings thereby disenfranchising producers from future benefits;

4) Selfish growers who want to cash out and don't care about what happens to their peers;

5) Boards and managers looking for an "easy" way out of problem resolution in the short run without examining long run consequences; and

6) Managers or management teams who have failed to manage the co-operative effectively and would blame failure on some inherent weakness in the co-operative form of business.

While the traditional fund-raising sources for co-operatives were the members and the banks, business environment of today necessitates co-operatives apply alternative financing techniques. Some of the methods outlined by James R. Craycroft, Senior Manager of KPMG Peat Marwick in Oregon, U.S.A. in an article in the Winter 1991 issue of The Co-operative Accountant, are as follows:

a) **Limited Partnerships** : to be formed to acquire and lease back to the co-operative needed capital equipment;

b) **Joint Ventures** : to be used to enhance product mix, utilize excess plant capacity or reduce spending on capital equipment;

c) **Member-Employee Loan Programs** : to reduce short-term bank borrowings;

d) **Special Assessments** : to finance capital needs without having to incur additional long-term debts or interest charges. Special assessments can be a one-time capital infusion structured as a premium withheld per ton, or other unit, of member deliveries.

e) **Deferred Payment Program** : a one-time deferral of payments to members to reduce bank debt in the short-term.

f) **Employee Equity Participation** : for a short-term decrease in borrowings.

Craycroft concludes that "... today's competitive environment requires co-operative managers to be more creative ...".

This simply means that the co-operatives have to adopt a 'commercial stance' in their activities to better serve the members in the long-term.

The notions described, although written in the context of situations in U.S., could be adapted for use in Australia. Copies of the articles under reference, could be obtained from the Co-operatives Development Branch of the Registry of Co-operatives. (Tel : (02) 895 0715

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# CO-OPERATIVES2000

## Development Strategy

Issue No. 4

CO-OPERATIVES 2000 NEWSLETTER

APRIL - MAY 1992

### FROM THE EXECUTIVE OFFICER

This issue of the Co-operatives 2000 Newsletter principally contains material which was presented at the recent successful Workshop held at the State Office Block on 30th April, 1992.

The Workshop which was divided into three Sessions considered, firstly, education, training and promotion of co-operatives, capital raising options available to co-operatives and, finally, co-operative models. Articles reflecting these various themes are included in this issue. Participants at the Workshop discussed many of these issues at length and provided much useful information to those persons in the relevant Working Parties. All participants present agreed that the Workshop had provided an ideal opportunity to discuss many of the more contentious and pressing issues identified by the various Working Parties as relevant to co-operative development.

The other major item mentioned in this issue of the Newsletter concerns the passage of the new Co-operatives Act through the State Parliament. It is expected that this new legislation will commence sometime later in the year.

What has been most heartening about the development of this legislation has been the wide degree of support from all quarters of the co-operative movement in this State. I look forward to a similar degree of support for the findings and recommendations of the Co-operatives 2000 process.

**Garry Cronan**  
Executive Officer

## CO-OPERATIVES ACT 1992 PASSED

The importance of legislation for the successful operation of co-operatives has been stressed on many occasions, during the deliberations of either the Steering Committee or the four Working Parties of Co-operatives 2000. The legislation underpinning the operation of general co-operatives in New South Wales is presently the Co-operation Act 1923. This legislation has been under extensive review since early 1989. As a result of the review process, and the wide public discussion that has taken place with co-operative members and their representatives throughout New South Wales, new legislation was drafted.

On 5th May 1992, the Legislative Council, the second chamber of the New South Wales Parliament, passed the Co-operatives Bill 1992. The passage of this Bill through the Upper House followed its approval by the Legislative Assembly on 30th April 1992. The new Co-operatives Bill was strongly supported by all parties represented in Parliament. The operation, development and supervision of general co-ops in New South Wales is clearly one area where there is a large degree of bipartisan political and community support.

The new legislation which is expected to commence operation later in the year, following the completion of the relevant regulations and model rules, represents a major re-write of the existing legislation. Virtually every section has been re-written, as well many existing sections of the current Act have been deleted and new sections added. In summary, the basic

policy direction of the new legislation is to encourage and to allow for greater freedom of operation of co-ops consistent with co-op principles while providing for a more appropriate and enhanced regulatory and supervisory framework.

The principal features of the new legislation which are of importance for the Co-operatives 2000 Strategy process include: the provision for external equity participation for co-ops, the provision for external directors on the boards of co-operatives, the removal of the doctrine of ultra vires and greater director accountability and responsibility for co-op directors.

The introduction of this new legislation can be seen as one part of a two-pronged approach to co-operative development: firstly, the development of modern and appropriate legislation; and secondly the development of a broad sector-wide strategy to maximize the opportunities inherent in the new legislation.

## Education, Training and Promotion of Co-operatives

Through a series of papers and discussions, the working party has been examining the nature of "co-operation" and "co-operatives", and what is distinctive about **co-operatives**. The group has also examined the role of co-operative directors and managers.

Having set this context, the working party has been able to examine evidence about the attitudes of a range of professional and other groups to co-operatives in Australia and overseas. This has enabled us to then debate ideas for the promotion of co-operatives to target groups, how to provide co-operatives with consultative support, and how to provide education and training to target groups.

Before proceeding to draft a report for the steering committee, the working party is keen to hear the views of working parties "A", "B", and "D", together with those of other interested relevant people, since these will add ideas from a different perspective to that taken by ourselves.

The following definition has been adopted by our working party, this itself being supplemented by our modification of the ICA's list of six co-operative principles.

"A co-operative is the embodiment of an inclination to co-operate, and co-operation is defined as seeking to embody in a democratic form a social process of working and thinking together to achieve economic and social goals unavailable to the individual as an isolated competing entity. Thus, more specifically, **a co-operative is a voluntary, democratic organisation controlled by members on a one vote one person basis irrespective of shareholding, which divides benefits among members**

**on a pro-rata basis in a manner agreed by members.**

The working party sees it as critical that these values are modelled by, and underpin, all education, training and promotion activities.

**Education** should develop competencies in respect of;

- \* the application of an understanding of co-operative principles and history;
- \* the role of co-operation in the local, state, national and international arenas;
- \* the role of different models of co-operation;
- \* differences between co-operation and other models of socio-economic behaviour.

**Training** should focus on "state of the art" competencies in;

- \* finance;
- \* regulatory matters;
- \* marketing; and
- \* management competencies

**Promotion** should aim to develop interest and arouse curiosity concerning co-operation's relevance in serving community needs and achieving economic goals. Particular groups to be targeted are:

- \* Legislators;
- \* Directors, managers, members, employees and prospective members of co-operatives;
- \* The media;
- \* Bankers and credit agencies;
- \* Solicitors/accountants/consultants to co-operatives;
- \* Educators - both secondary and tertiary;

- \* Government departments and other agencies.

The working party wishes to re-emphasise the difference between **education** and **training**, and notes that training would be mainly targeted to the co-operatives themselves, particularly directors, managers and employees.

Education models being considered include distance education, short courses, on-the-job training, and full and part-time accredited courses. Of key importance here were the issues of certification and teaching/learning strategies. Adult learning principles should be used, rather than traditional didactic teaching modes.

Finally, the working party believes that the "co-operatives 2000" initiative has a historic opportunity to succeed where earlier, similar initiatives have failed. To do so we need to articulate specific programs of action, together with resource implications. In terms of resources, co-operatives will need to play their part, particularly keeping in mind that ICA principle (5) is "The provision of funding for education of their members, officers, employees and the general public in the principles and techniques of co-operation".

The Rochdale pioneers wanted this to be 8% of annual turnover, but were forced by legislation to confine this to 25%.

This is the speech made by **Prof. Roger Packham**, Chairman of Working Party C at the Workshop held on 30th April 1992. Several points of interest were raised at the Workshop on Education and Promotion of Co-operatives.

## CAPITAL RAISING BY CO-OPERATIVES

A great deal has been made of the difficulties of co-operatives in raising capital and borrowings.

This Working Party has been charged with investigating all aspects of capital and fund-raising.

We should make it very clear that no one set of recommendations will be suitable and applicable to all the different types of co-operatives.

There has been in recent years a trend to use the co-operative structure as a vehicle for the distribution of Social Security Benefits or the provision of Social Services.

We don't see any problem in this area as long as it is recognised that these co-operatives will always be dependent on Governments for funding and, as such, will be subject to the whims of Government and financial constraints of Government policies.

The co-ops that we have principally looked at are naturally the trading co-ops and here again the variations in purpose and policy are enormous. Many of the problems of co-ops in respect to capital and finance are brought about by the very advantage that other corporate structures envy - their taxation advantages.

The ability for co-ops to distribute profits to shareholders by way of dividend or to pay rebates based on members activity with the co-op prior to the co-op incurring any tax liability is one of the greatest weaknesses of the co-operative movement.

This non-taxable distribution encourages distributions of surplus funds rather than its retention within the co-op to fund growth and development. We believe it would be preferable for the taxation system to encourage the reten-

tion of capital rather than its distribution.

The directors of many co-ops are also guilty of by passing the opportunity to retain capital within the co-op.

The directors have the ability to issue 47/A Shares in lieu of or in addition to dividend or rebates.

47/A Shares are not popular with shareholders, and directors are reluctant to issue them for fear of incurring the wrath of shareholders at the ballot box. Co-operatives are very emotive issues within communities in rural NSW and the issuing of these shares can stir the natives into action with all the fury of a nuclear war.

Let's not forget that the economic well being of some co-operatives is the major economic factor in the very survival of some country towns.

Co-operatives can be and are the dominant employer in some communities. If I may use the Nambucca Shire as an example here we can look at a Shire population of approximately 17,000 people, man, woman and child.

Within this community we have the Banana-Coast Credit Union origins and headquarters with assets of \$70 million. Norco Dairy Co-op collecting and distributing milk and supplying farm requisites the Banana Growers Federation with freight services and farm supplies and the Nambucca River Co-op with eight retail outlets. The Nambucca Shire was also the base for the Mid-Coast Meat Co-operative which went into liquidation some years ago and was sold to the Japanese company Mitsubishi. Without the co-operatives operating in the region the economic base would shrivel up and fade

away.

This situation is repeated in many country towns in NSW so it is important that co-operatives are well managed and remain a strong and viable operation.

Capital growth must be encouraged and directors need to be realistic in their approach to capital issues.

The assets of any co-op should be closely aligned with the issued capital of the co-op. One of the problems that arises with the valuation of assets is that the value of these assets to a co-operative may be greater than the realisable value. Undervalued assets penalise Shareholders retiring from the co-op and yet unrealistic values create problems for the continuation and further development of the co-op.

Trading co-ops must be encouraged to strive to generate commercially acceptable rates of profits and to retain at least 50% of these profits within the co-operatives.

The key to raising finance is similar to that of other corporate entities. Sensible gearing ratio's are necessary.

Profits are hard to make and, indeed, it is extremely difficult to achieve profits in excess of bank interest rates. If gearing levels are excessive the financiers will be the only ones to profit from the exercise.

Post crash policies of the finance industry place great emphasis

**Continued on Page 4**

This is the speech made by **Duncan Campbell**, Chairman of Working Party A at the Workshop held on 30th April 1992. Several points of interest were raised at the Workshop on Capital Raising by Co-operatives.

**Continued from Page 3**

sis on cash flow financing rather than asset backing.

I know from discussions with the banking industry that an area of major concern to them is the standard of management expertise within the co-operative sector. Co-ops have a history of paying salaries at a lower level than similarly size businesses within the private enterprise sector.

Directors who are principally volunteers are reluctant to offer high salary packages and will readily accept lower qualifications and expertise for a lesser cost.

Consequently Managers are often inexperienced and low achievers. The banking industry has assured me that co-ops are treated in a similar manner to other corporate entities if they meet the following basic criteria :-

1. Sound Cash Flow
2. Good Track Record Within Industry
3. Sound Experienced Qualified Management Team
4. Realistic Gearing Ratios.
5. Appropriate Asset Backing.
- 6 Fully Researched and Documented Application.

Co-ops will not nor should they expect lower interest rates than the rest of the business community or guaranteed access to capital.

The proposed Australian Co-operative Bank may be more user friendly to co-ops in the future. However, we must realistically accept that it will be 2000 AD before we can expect the proposed Bank to become a sizeable player in the field.

We have looked at the concept of Credit Unions becoming the banking arm of the co-operative movement.

This is a brilliant concept but

with the move to bring a national standard to the Credit Union movement the opportunities appear to be minimal.

The limits placed on commercial lending by Credit Unions means that only small loans can be made in this area.

Credit Unions are restricted to 10% of their equity being available for commercial loans with a further restriction of 1.0% to any one borrower. We should not expect the Credit Union's to lower their standards.

Co-operatives have the ability to issue debentures out of pre-tax earnings. This is an opportunity to raise some finance from the members fairly painlessly however the volume of finance is restricted by the amount of profits made.

The introduction of the new Co-operatives act makes provision for the issue of Co-operative Credit Units or CCUs as they are known.

These are in effect a form of debenture with a few variations and appear to be issued without producing a prospectus. It doesn't appear that this will have a major effect on the co-operative industry.

One area for future development appears to be the formation of subsidiary companies. This is a particularly emotive issue within the co-operative industry. Corporatisation may be suitable for large scale expansion programs, or for co-operatives wishing to move into value adding projects.

This corporatisation would be attractive for co-ops seeking large amount of capital in relation to existing capital and finance. The co-operative could easily be a minority shareholder within a company but having control of the company and thus in theory retain-

ing the co-operative shareholders power of control down the chain.

Control whether it be of a regional nature or industry is a key factor in the co-operative industry.

In conclusion could I stress that corporatisation is only one option and co-ops and their shareholders would need to look at it openly and yet with a degree of caution.

As a summary of our findings to date could we suggest that initially co-ops look at their future direction, their present position and their past.

The past, because it will show trading patterns and the local factors that affect those patterns.

The present, because that will determine the future direction of the co-op and the best way to plan for that future.

Many of the capital options are within the power of the Board to prepare for future requirements of the co-op. Proper levels of profit retention so as to maximise capital and minimise borrowings.

Loan applications must be properly researched and documented. Staff must be of the highest possible standard.

These are all principles of any search for funding. But too often they are given low priority and then finance is hard to get.

Where major expansion is planned, corporatisation is an option with listing allowing for the easier means of shareholders moving in or out of the structure at will.

Co-operatives looking to value add to their products may find it very difficult to get access to funds when they start to move into new areas of production. Lenders are now reluctant to lend into ventures where there is no existing expertise.

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# CO-OPERATIVE MODELS

## WHAT IS A CO-OP MODEL ?

A co-operative model is a summary of the features of a co-operative.

A co-op model can be thought of as a recipe - a listing of ingredients, (e.g. the six co-op. Principles:

- (i) Voluntary membership,
- (ii) Democratic control,
- (iii) Restricted dividend,
- (iv) Profit sharing based on usage of co-op services;
- (v) Co-operative education,
- (vi) Co-operation among co-ops;

minimum 5/7 members aged 18 years or more; active membership rule to provide an incentive for members to participate in the co-op) and an outline of how the co-operative organisation meets the economic and social needs of its members.

Co-op models may describe existing reality : co-ops that currently operate, for example, Ricegrowers Co-op Ltd., or point the way to potential or future applications of the co-op structure to satisfy business or community needs, e.g. a bulk buying co-op for suburban pizza shop proprietors or a co-op library of books / videos for the community.

The six international co-operative principles are a starting point when considering co-operatives. These are the principles which the International Co-operative Alliance (ICA, a United Nations affiliated body, established in 1895) set down as defining co-op organisations. They are reproduced in Section 5A of the current Co-operation Act of 1923 and Section 6 of the new Co-ops Bill.

## HOW CAN A CO-OP MODEL BE USED?

The fundamental aim of Co-operatives 2000 is to identify opportunities for the development of existing or new co-ops in New South Wales.

Co-op models are a convenient way for Working Party members and other participants in the Co-operative 2000 process to think about, visualise, talk of, discuss, debate or write-up co-op development opportunities.

In this way, the wide variety of methods which people think and work on co-op issues can be translated into a "common language" of the co-op model. This provides a frame-work to organise thoughts and ideas and to help us identify the essence of what contributes to the success of a co-op in its particular circumstances.

As Jack McLoone, General Manager of the Co-op Bookshop stated : "People like to follow winners - role models". Co-operative models can be the written record of successful "role model" co-ops.

Using the ASIC classification of economic and social industrial activities in N S W and Australia, Working Party members can systematically investigate each area of activity and ask themselves the following questions :

- \* Do any co-ops operate in this industry?

If YES,

- \* How successfully do they operate?
- \* What factors account for their success?
- \* Is there potential to develop the existing co-ops?
- \* Are there net benefits (cost /

benefit analysis) in establishing other similar co-ops in the industry?

- \* Could any of the features of these co-op(s) be applied to other co-ops in other areas to improve their level of service to members?

If NO,

- \* Why don't co-ops currently operate in the industry?
- \* What potential exists for co-ops to be established in the industry?

This is another way of stating Tim Dyce's (Education and Training Manager of the Australian Association of Co-operatives) vision: "Each Australian has the right to know the co-op option - to make the choice".

## AN EXAMPLE CO-OP MODEL

The Coonamble Wool Processing Co-op Ltd. is an example of local initiative and a Govt. program to appropriately promote co-ops leading to the prospects of regional development. Background information is as follows : DESCRIPTION OF MEMBERS: 120 Wool growers in the Coonamble District SERVICES PROVIDED TO MEMBERS : transportation, processing and marketing of members products.

OBJECTS : to dispose of the agricultural products or live stock of its members or other persons.

ACTIVE MEMBERSHIP RULE : i) each member will provide to

**Continued on Page 6**

This article was written by Graham Monday, Senior Development Officer of the Registry of Co-operatives.

**Continued from Page 5**

the co-operative at least one bale of wool per year for processing and/or marketing, and  
 ii) pay an annual subscription of \$ 20.

**FOCUS ON CO-OPS 2000 ISSUES**

Here is a summary of the relevance of the Coonamble co-op model to some of the issues being considered by each of the Working Parties.

**Working Party A**

\* **Employment estimates :**  
 Stage 1 Pilot -2 employees  
 Stage 2 Scouring and Top Making Plants assuming min. economic Size 100 employees plus indirect wealth multiplier effects from these employees and operational requirements of the processing plant, e.g. electricity, equipment supply & servicing.

\* **Skills - Marketing experience** to be sourced in part from the Chinese joint venture partner the All China Federation of Supply and Marketing Co-ops.

\* **Funding - Members** proposing to contribute a percentage of their return on the sale of their processed wool to obtain a stake in the processing joint venture.

**Working Party B**

Australian grown wool (Coonamble district) will be processed and manufactured into such products as jumpers via a joint venture (Coonamble Wool Processing Co-operative Ltd and All China Federation of Supply and Marketing Co-ops) thereby value adding (with the value added being shared in part by the Co-op

of Australian wool growers) and exporting (international trade) the product via Hong Kong and the European co-op network.

**Working Party C**

Business planning/marketing experience/skills of the Coonamble Co-op members and directors to be enhanced by the All China Federation arranging for a Chinese consultant to work in Australia at the Co-op for some six months.

**Working Party D**

Removal of the federal statutory reserve price (floor price) scheme has encouraged wool growers to explore alternative ways of marketing their wool, some of which may be more efficient than the statutory method.

**WHY FORM A CO-OPERATIVE?**

The Coonamble Shire President and his deputy approached the Minister for Co-operatives, the Hon. G.B. Peacocke and his Policy Advisor, **Jim McCall**, when they were in Sydney (attending a Local Government meeting) to discuss what assistance could be provided to further develop the Coonamble district area that grows wool and fattens cattle. Out of this meeting grew the Coonamble Wool Processing Co-operative Ltd.

The relevant factors include :

\* the fit or match between the Co-op Model and the circumstances - an organisation owned, controlled and used by its members (wool growers) providing services to its members; (transport,

processing and marketing of members' wool).

- \* **assistance** available under the Co-ops Development Fund Program to arrange a feasibility study for the business concept.
- \* intention to do a **pilot project** which needed an **incorporated legal body** for contract purposes and **limited liability** protection for participants and to **minimize up front costs** (Co-op registration fee \$70 and do it yourself registration option with assistance from the Registry of Co-operatives' Co-op Formations Service compared with company registration fee \$548 and legal fees \$200 to \$600).
- \* a **profit making venture** distributing profits to members (rules out an incorporated association).
- \* membership expected to exceed 200 wool growers (rules out a private company which has a max. of 50 shareholders).
- \* Registry of Co-operatives provides an **ongoing support service** to assist registered co-ops with a variety of matters including funding for updating business plans or advice on updating rules to reflect changing circumstances.
- \* **co-operation between co-operatives** (I.C.A. Model) - incorporating as a co-op opened up the potential to tap into the extensive world wide co-op network present in many of the countries Australia trades with including USA, Japan, UK, Europe, Indonesia and China.

## SESSION ON CO-OPERATIVE MODELS

The classification of co-operatives under the ASIC system and its benefits were outlined by **Garry Cronan** and several models were presented during the session on Co-operative Models at the Workshop held on 30th April 1992.

Australian Standard Industrial Classification (ASIC) is an industry classification of economic and social activities carried out by organisations, which has been developed by the Australian Bureau of Statistics.

ASIC provides a convenient and a comprehensive way of conceptualising the range of activities and organisations in which co-operatives could operate. ASIC is also a system compatible with other information data bases, that can shed light on emerging and prospective trends in industries relevant to co-operative development opportunities.

Garry presented an analysis of the financial data of co-operatives for the year 1990, classified by the ASIC codes.

**Don Kinnersley's** description of the Australian Premium Food's second-tier organisation of 5 Australian dairy co-operatives with the aim of marketing dairy produce mainly in the Asian markets, high-

lighted the application of working towards national co-operative legislation and a better understanding of the linkages between the current state-based co-operative legislation being undertaken by the Micro-Economic Reform and Legislation Working Party D.

Unfortunately, **Jim McCall**, Policy Advisor to the Minister for Co-operatives, could not attend the Workshop because of prior commitments. So, **Graham Monday** presented the story about the Coonamble Wool Processing Co-operative, which is outlined in the Co-operative Models article within this issue.

**Karine Shellshear** spoke of the pivotal resourcing role played by the Association to Resource Housing Co-operatives (ARCH), in meeting the educational training needs of the 42 housing co-operatives or groups throughout the metropolitan and regional New South Wales.

The importance of second-tier co-operatives as catalysts in co-op development, as described by Karine, is depicted in the chart below.

**Gavan Hatfield** from Hambros Australia Ltd. presented a thought provoking summary of some re-

search by **David Williams** on the comparative efficiency of co-operatives and the distinguishing features of efficient co-operatives such as

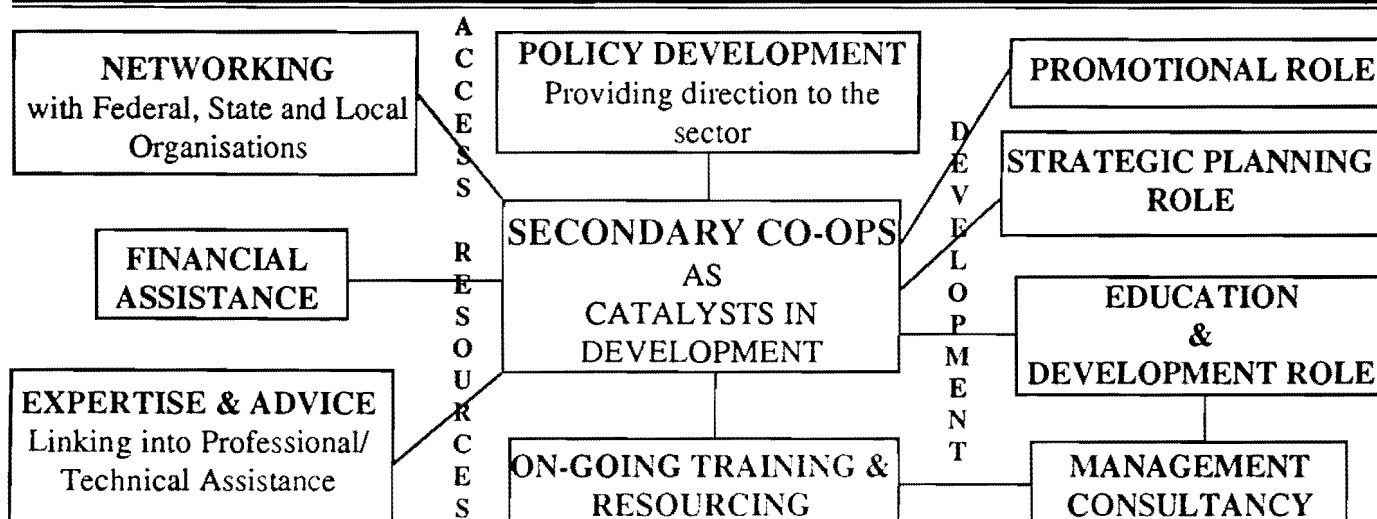
- \* close member bonding
- \* small co-operative membership
- \* no/limited geographic diversity
- \* relevance of the co-operative to members' business or interests
- \* egalitarian motives.

Gavan explained that all features did not have to be present for a particular co-operative as some features could compensate for the absence of others.

**Nick Munk** drew attention to the marketing excellence achieved by the South Australian Seedgrowers Ltd. in winning four National Export Awards in 1972, 1977, 1982 and 1986.

Some of the factors which accounted for its success included

- \* the appointment of a full-time experienced Manager and
- \* the use of seed marketing arrangements (i.e. contracts) between the grower members and the Co-op. to ensure a regular supply of quality seeds for marketing through the co-op.



## ECONOMIC AND SOCIAL GOALS OF CO-OPERATIVES

Economic goals and social goals are not at the two extremes of a spectrum of co-operative activity but could be depicted as a two-dimensional matrix. This was a theme considered by **Garry Cronan**, Executive Officer of the Co-operatives 2000, who chaired the session on Co-operative Models at the Workshop held on 30th April 1992.

The implication is that a co-operative, could have economic

and social goals without conflict. The performance of the organisation could be measured in terms of achievements in both social goals and economic goals. The role of a co-operative can only be truly appreciated when both economic goals and social goals are recognised.

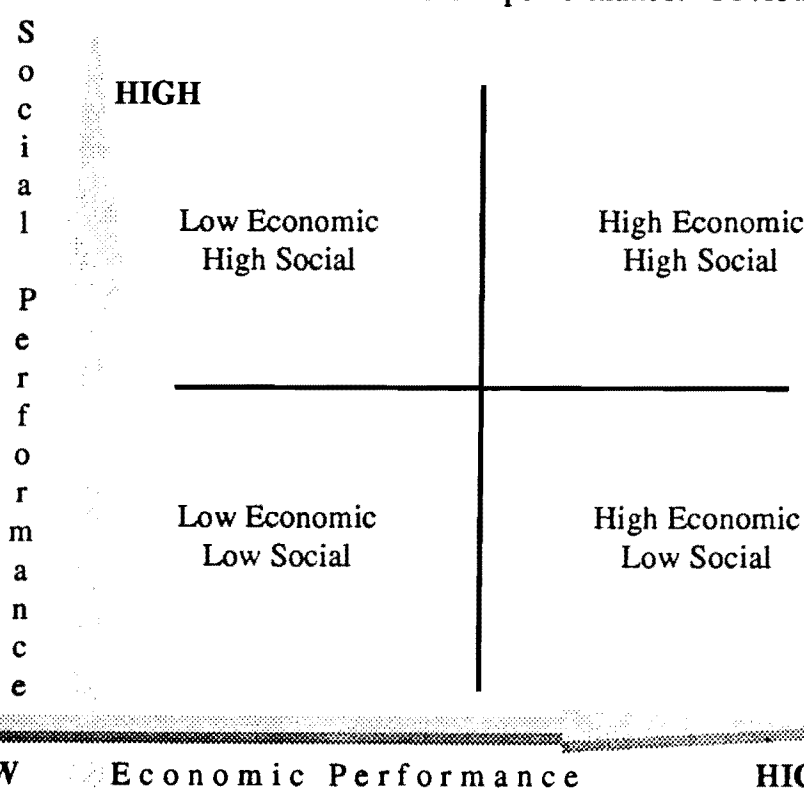
The matrix developed has four quadrants, into which the co-operatives could fall depending on their performance. Obviously,

some co-operative would fall into the first quadrant, having a high economic performance and a high social performance. A co-operative having high social benefits but making 'low' profits would fall into the second quadrant (when profit is considered as an indicator of economic performance).

This brings up the question of measurement of performance. The indicators of economic performance are fairly well-defined with indices such as net profits, gross and net profit ratios, liquid ratio, Total assets, Turnover, dividends, etc. But, what indices are available to measure social performance?

The attitude of many people has been that social goals are not important, may be due to the lack of well-defined performance indicators. Moreover, rewards for achievement of social goals are not available. Thus, the 'warm and fuzzy feeling' which is seen as the index of social performance, is disregarded totally and an undue importance is attached to the economic performance.

The development of social performance indicators is one of the research projects identified under the Co-operatives 2000 process.



SCHEDULE OF MEETINGS									
Steering Committee		Working Party A		Working Party B		Working Party C		Working Party D	
23/9/91	1st	6/12/92	1st	6/12/91	1st	6/12/91	1st	6/12/91	1st
6/11/91	2nd	3/2/92	SC3	14/2/92	2nd	13/2/92	2nd	11/12/91	SC2
6/12/91	3rd	07/2/92	2nd	4/3/92	SC1	4/3/92	3rd	13/12/91	SC1
24/1/92	4th	17/2/92	SC1	4/3/92	SC2	1/4/92	4th	16/12/91	SC4
28/2/92	5th	6/3/92	SC3	4/3/92	3rd	13/5/92	5th	28/1/92	2nd
3/4/92	6th	17/3/92	SC3	3/4/92	4th	10/6/92	6th	4/2/92	SC1
1/5/92	7th	28/5/92	SC1	8/5/92	5th	24/6/92	7th	12/2/92	SC4
29/5/92	8th							20/2/92	SC3
								13/3/92	3rd

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